

CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE

AUDIT OFFICE



28TH DISTRICT AGRICULTURAL ASSOCIATION
SAN BERNARDINO COUNTY FAIR
VICTORVILLE, CALIFORNIA

INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS

AUDIT REPORT #08-027
FOR THE YEARS ENDED
DECEMBER 31, 2007 AND 2006

28TH DISTRICT AGRICULTURAL ASSOCIATION
SAN BERNARDINO COUNTY FAIR
VICTORVILLE, CALIFORNIA

INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS

FOR THE YEARS ENDED
DECEMBER 31, 2007 AND 2006

AUDIT STAFF

Ron Shackelford, CPA
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Auditor

AUDIT REPORT NUMBER

#08-027

28TH DISTRICT AGRICULTURAL ASSOCIATION
SAN BERNARDINO COUNTY FAIR
VICTORVILLE, CALIFORNIA

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CALIFORNIA DEPARTMENT OF
FOOD & AGRICULTURE

A. G. Kawamura, Secretary

Manny Hinojos, President
Board of Directors
28th DAA, San Bernardino County Fair
14800 Seventh Street
Victorville, California 92395

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying statements of financial condition of the 28th District Agricultural Association (DAA), San Bernardino County Fair, Victorville, California, as of December 31, 2007 and 2006, and the related statements of operations and changes in accountability, and cash flows-regulatory basis for the years then ended. These financial statements are the responsibility of the 28th DAA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

Except as discussed in the following paragraph, we conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the combined financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In 2007, we were unable to apply general auditing procedures without extensive effort to satisfy ourselves about the disclosed amount for Account #228, Deferred Income (stated at \$155,243) as reflected on the accompanying Statement of Financial Condition as of December 31, 2007. As of December 31, 2007, detailed and accurate records to substantiate amounts represented as unearned revenue in 2007 for 2008 revenues did not exist. The Fair could not provide us the supporting documentation to reconcile the account with the balance in the general ledger.

Because of the matter discussed in the third paragraph, in our opinion, except for the amount reported in Account #228 – Deferred Income, the 2007 financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the 28th District Agricultural Association, San Bernardino County Fair, as of December 31, 2007 and

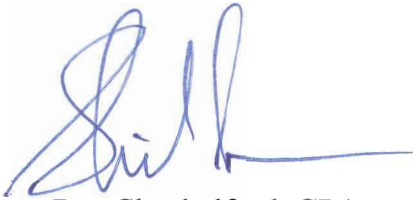


results of its operations and changes in accountability, and cash flows-regulatory basis for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the 2006 financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the 28th DAA, San Bernardino County Fair, as of December 31, 2006, and the results of its operations and changes in accountability, and cash flows-regulatory basis for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The 28th DAA, San Bernardino County Fair has not presented the Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Management Report #08-027, on the 28th DAA's compliance with State laws and regulations and system of internal accounting control, is issued solely for the purpose of additional analysis and should be addressed by the 28th DAA as appropriate. This additional report, however, is not a required part of the basic financial statements.

A handwritten signature in blue ink, appearing to read 'Ron Shackelford', with a long horizontal line extending to the right.

For
Ron Shackelford, CPA
Chief, Audit Office

August 29, 2008

**28TH DISTRICT AGRICULTURAL ASSOCIATION
SAN BERNARDINO COUNTY FAIR
VICTORVILLE, CALIFORNIA**

**STATEMENTS OF FINANCIAL CONDITION
December 31, 2007 and 2006**

| | <u>Account Number</u> | <u>2007</u> | <u>2006</u> |
|---|---------------------------|----------------------------|----------------------------|
| ASSETS | | | |
| Cash in Bank | 111 - 117 | \$ 244,297 | \$ 159,624 |
| Accounts Receivable, Net | 131 | 123,739 | 149,539 |
| Deferred Charges | 143 | 582 | 3,200 |
| Construction in Progress | 190 | 120,204 | 38,574 |
| Land | 191 | 22,055 | 22,055 |
| Buildings and Improvements, Net | 192 | 1,266,853 | 1,285,467 |
| Equipment, Net | 193 | 90,494 | 65,864 |
| Capital Lease - Photovoltaic, Net | 194 | 1,164,419 | 1,210,996 |
| TOTAL ASSETS | | <u>3,032,643</u> | <u>2,935,319</u> |
| LIABILITIES AND NET RESOURCES | | | |
| Liabilities and Other Credits | | | |
| Accounts Payable | 212 | 53,591 | 113,892 |
| Current Portion of Long Term Debt | 212.5 | 65,061 | 57,635 |
| Payroll Liabilities | 221 - 226, 248 | 5,489 | 6,523 |
| Deferred Income | 228 | 155,243 | 37,496 |
| Guaranteed Deposits | 241 | 26,240 | 25,368 |
| Compensated Absences Liability | 245 | 96,771 | 110,738 |
| Long Term Debt | 255 | 379,879 | 444,940 |
| Total Liabilities and Other Credits | | <u>782,275</u> | <u>796,592</u> |
| Net Resources | | | |
| Reserve for Junior Livestock Auction | 251 | 6,312 | 6,993 |
| Net Resources - Operations | 291 | 24,972 | 11,353 |
| Net Resources - Capital Assets, less Related Debt | 291.1 | 2,219,085 | 2,120,382 |
| Total Net Resources Available | | <u>2,250,369</u> | <u>2,138,728</u> |
| TOTAL LIABILITIES AND NET RESOURCES | | <u>\$ 3,032,643</u> | <u>\$ 2,935,319</u> |

**28TH DISTRICT AGRICULTURAL ASSOCIATION
SAN BERNARDINO COUNTY FAIR
VICTORVILLE, CALIFORNIA**

STATEMENTS OF OPERATIONS/CHANGES IN ACCOUNTABILITY
Years Ended December 31, 2007 and 2006

| | <u>Account Number</u> | <u>2007</u> | <u>2006</u> |
|---|---------------------------|----------------------------|----------------------------|
| REVENUE | | | |
| State Apportionments | 312 | \$ 105,000 | \$ 105,000 |
| Capital Projects Fund | 317-318 | 35,698 | 63,127 |
| Other Resources Acquired | 340 | 53,470 | 236,013 |
| Admissions | 410 | 471,281 | 422,338 |
| Commercial Space | 415 | 164,430 | 168,435 |
| Carnival | 421 | 207,004 | 186,453 |
| Food Concessions | 422 | 141,128 | 123,845 |
| Exhibits | 430 | 26,842 | 17,046 |
| Horse Show | 440 | 2,387 | 1,498 |
| Satellite Wagering | 450 | 604,915 | 652,848 |
| Attractions - Fairtime | 460 | 91,140 | 244,906 |
| Miscellaneous Fair | 470 | 249,368 | 181,295 |
| JLA - Revenue | 476 | 18,917 | 3,659 |
| Non-Fair Revenue | 480 | 736,634 | 554,516 |
| Prior Year Adjustment | 490 | 11,024 | 44 |
| Other Revenue | 495 | 8,544 | 5,187 |
| Total Revenue | | <u>2,927,779</u> | <u>2,966,210</u> |
| EXPENSES | | | |
| Administration | 500 | 530,860 | 444,089 |
| Maintenance and Operations | 520 | 637,338 | 576,863 |
| Publicity | 540 | 154,782 | 101,451 |
| Attendance | 560 | 119,831 | 134,279 |
| Miscellaneous Fair | 570 | 55,164 | 36,794 |
| JLA - Expense | 576 | 19,597 | 10,831 |
| Premiums | 580 | 32,968 | 25,142 |
| Exhibits | 630 | 46,885 | 47,248 |
| Horse Show | 640 | 831 | 1,762 |
| Satellite Wagering Expense | 650 | 438,330 | 411,597 |
| Attractions - Fairtime and Interim | 660-680 | 560,360 | 769,069 |
| Equipment | 723 | 16,801 | 16,615 |
| Prior Year Adjustments | 800 | 10,382 | 12,226 |
| Cash Over/Short from Ticket Sales | 850 | (3,110) | 1,520 |
| Depreciation Expense | 900 | 141,649 | 135,002 |
| Other Operating Expense | 945 | 53,470 | 43,557 |
| Total Expenses | | <u>2,816,138</u> | <u>2,768,045</u> |
| RESOURCES | | | |
| Net Change - Income / (Loss) | | 111,641 | 198,165 |
| Resources Available, January 1 | | 2,138,728 | 1,940,563 |
| Resources Available, December 31 | | <u>\$ 2,250,369</u> | <u>\$ 2,138,728</u> |

**28TH DISTRICT AGRICULTURAL ASSOCIATION
SAN BERNARDINO COUNTY FAIR
VICTORVILLE, CALIFORNIA**

**STATEMENTS OF CASH FLOWS - REGULATORY BASIS
Years Ended December 31, 2007 and 2006**

| | <u>2007</u> | <u>2006</u> |
|---|---------------------------------|---------------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Excess of Revenue Over Expenses (Expenses Over Revenue) | \$ 111,641 | \$ 198,165 |
| (Increase) Decrease in Accounts Receivable | 25,800 | (34,735) |
| (Increase) Decrease in Deferred Charges | 2,618 | 3,408 |
| Increase (Decrease) in Deferred Income | 117,747 | 22,475 |
| Increase (Decrease) in Accounts Payable | (117,937) | 68,137 |
| Increase (Decrease) in Compensated Absence Liability | (13,966) | 26,889 |
| Increase (Decrease) in Payroll Liabilities | (1,035) | (6,136) |
| Increase (Decrease) in Guarantee Deposits | 873 | 6,295 |
| Total Adjustments | <u>14,100</u> | <u>86,333</u> |
| Net Cash Provided (Used) by Operating Activities | <u>125,741</u> | <u>284,498</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| (Increase) Decrease in Construction in Progress | (81,629) | (19,571) |
| (Increase) Decrease in Buildings & Improvements, Net | 18,614 | (144,780) |
| (Increase) Decrease in Equipment, Net | (24,630) | (35,834) |
| (Increase) Decrease in Photovoltaic Lease, Net | <u>46,577</u> | <u>46,577</u> |
| Net Cash Provided (Used) by Investing Activities | <u>(41,068)</u> | <u>(153,608)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Increase (Decrease) in Long-Term Liability | <u>-</u> | <u>(123,410)</u> |
| Net Cash Provided (Used) by Financing Activities | <u>-</u> | <u>(123,410)</u> |
| NET INCREASE (DECREASE) IN CASH | 84,673 | 7,480 |
| Cash at Beginning of Year | 159,624 | 152,143 |
| CASH AT END OF YEAR | <u><u>\$ 244,297</u></u> | <u><u>\$ 159,624</u></u> |

**28TH DISTRICT AGRICULTURAL ASSOCIATION
SAN BERNARDINO COUNTY FAIR
VICTORVILLE, CALIFORNIA**

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2007 and 2006

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization - The 28th District Agricultural Association (DAA) was formed in 1947, for the purpose of sponsoring, managing, and conducting the San Bernardino County Fair each year in Victorville, California. The State of California, Department of Food and Agriculture, through the Division of Fairs and Expositions provides oversight responsibilities to the DAA. The DAA is subject to the policies, procedures, and regulations set forth in the California Government Code, California Business and Professions Code, Public Contracts Code, Food and Agricultural Code, State Administrative Manual, and the Accounting Procedures Manual established by the Division of Fairs and Expositions.

The State of California allocates funds annually to the DAA's to support operations and acquire fixed assets. However, the level of State funding varies from year to year based on budgetary constraints. The Division of Fairs and Expositions determines the amount of the allocations.

Basis of Accounting - The accounting policies applied to and procedures used by the DAA conform to accounting principles applicable to District Agricultural Associations as prescribed by the State Administrative Manual and the Accounting Procedures Manual. The DAA's activities are accounted for as an enterprise fund. The Governmental Accounting Standards Board defines an enterprise fund as a fund related to an organization financed and operated in a manner similar to a private business enterprise where the intent is to recover the costs of providing goods or services to the general public primarily through user charges.

The DAA's financial activities are accounted for using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP) as promulgated by the Governmental Accounting Standards Board. Thus, revenues are reported in the year earned rather than collected, and expenses are reported in the year incurred rather than paid.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the

reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes – The DAA is a state agency and therefore, is exempt from paying taxes on its income.

Cash and Cash Equivalents - The DAA's cash and cash equivalents are separately held in various local banks. The Financial Accounting Standards Board defines cash equivalents as short-term, highly liquid investments that are both: (1) readily convertible to known amounts of cash; and (2) so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. The cost of all cash equivalents of the DAA approximates market value.

The California State Treasury makes available the Local Agency Investment Fund (LAIF) through which local governments may pool investments. Each governmental entity may invest up to \$40,000,000 in the fund. Investments in the LAIF are highly liquid, as deposits can be converted to cash within 24 hours without loss of interest.

In accordance with the Accounting Procedures Manual, the DAA is authorized to deposit funds in certificates of deposit and interest bearing accounts. However, Government Code Sections 16521 and 16611 require the bank or savings and loan association to deposit, with the State Treasurer, securities valued at 110 percent of the uninsured portion of the funds deposited with the financial institution. Government Code Sections 16520 and 16610 provide that security need not be required for that portion of any deposit insured under any law of the United States, such as FDIC and FSLIC.

Property and Equipment - Construction-in-progress, land, buildings and improvements, and equipment are acquired with operating funds and funds allocated by the State. Any acquired assets, if greater than \$5,000 and a useful life of one or more years, are capitalized and depreciated. Buildings and improvements are depreciated over a period of 30 years, and purchases of equipment are depreciated over five years. Amounts spent on repair and maintenance costs are expensed as incurred by the Fair. Furthermore, donated building improvements, and equipment are recorded at their fair market value at the date of the gift. This recorded basis is depreciated over the useful lives identified above. Amounts spent on projects that have not been placed in service are recorded in Account #190, Construction-in-Progress and no depreciation is recorded on Construction-in-Progress until the project is completed and the asset is placed in service.

Sales Taxes – The State of California imposes a sales tax of 7.75% on all of the DAA's sales of merchandise. The DAA collects that sales tax from customers and remits the entire amount to the state Board of Equalization.

The DAA's accounting policy is to exclude the tax collected and remitted to the State from revenues and cost of sales.

Compensated Absences - Pursuant to Statement No. 16 of the Governmental Accounting Standards Board, State and local governmental entities are required to report the liability for compensated absences. Compensated absences are absences for which permanent employees will be paid, such as vacation, personal leave, and compensatory time off. The compensated absences liability is calculated based on the pay rates in effect at the balance sheet date.

NOTE 2 CASH AND CASH EQUIVALENTS

The following list of cash and cash equivalents were held by the DAA as of December 31:

| | <u>2007</u> | <u>2006</u> |
|---------------------------------|-------------------|-------------------|
| Petty Cash & Change Fund | \$ 5,100 | \$ 5,300 |
| Cash in Bank - Operating | 68,347 | 27,299 |
| Cash in Bank – JLA | 5,106 | 9,073 |
| Cash in Bank - Premium | 5,248 | 3,506 |
| Cash in Bank - Payroll | 3,259 | 1,444 |
| Cash in Bank – LAIF | 134,267 | 31,388 |
| Cash in Bank – Savings | 22,970 | 81,614 |
| Total Cash and Cash Equivalents | <u>\$ 244,297</u> | <u>\$ 159,624</u> |

NOTE 3 ACCOUNTS RECEIVABLE

The DAA is required to record an allowance for doubtful accounts based on estimates of collectibility.

| | <u>2007</u> | <u>2006</u> |
|---------------------------------|-------------------|-------------------|
| Accounts Receivable – Trade | \$ 87,265 | \$ 114,508 |
| Accounts Receivable – CCA | 55,865 | 58,607 |
| Accounts Receivable – F&E | 8,609 | 4,424 |
| Allowance for Doubtful Accounts | <u>(28,000)</u> | <u>(28,000)</u> |
| Accounts Receivable – Net | <u>\$ 123,739</u> | <u>\$ 149,539</u> |

NOTE 4 PROPERTY AND EQUIPMENT

Buildings and improvements, and equipment at December 31, 2007 and 2006 consist of the following:

| | <u>2007</u> | <u>2006</u> |
|--------------------------------|--------------------|--------------------|
| Building & Improvements | \$3,050,436 | \$ 3,000,899 |
| Less: Accumulated Depreciation | <u>(1,783,583)</u> | <u>(1,715,432)</u> |
| Building & Improvements - Net | <u>\$1,266,853</u> | <u>\$1,285,467</u> |

| | | |
|--------------------------------------|----------------------------|---------------------------|
| Equipment | \$ 275,587 | \$ 250,611 |
| Less: Accumulated Depreciation | <u>(185,093)</u> | <u>(184,747)</u> |
| Equipment - Net | <u>\$ 90,494</u> | <u>\$ 65,864</u> |
| Photovoltaic – Leasehold Improvement | \$ 1,397,303 | \$1,397,303 |
| Less: Accumulated Depreciation | <u>(232,884)</u> | <u>(186,307)</u> |
| Photovoltaic - Net | <u><u>\$ 1,164,419</u></u> | <u><u>\$1,210,996</u></u> |

NOTE 5 **LONG-TERM DEBT**

The DAA has entered into a long-term capital lease agreement with California Construction Authority (CCA) to finance the Photovoltaic power-generating project on the fairgrounds. The terms of the agreement are as follows:

F&E Photovoltaic Lease:

| | |
|-------------------------------|----------------------|
| Loan Amount | \$ 300,000 |
| First Payment Date | August 2003 |
| Payment Amount | \$ 1,868 |
| Duration of Loan | 128 Months |
| Interest Rate | Zero, Principal only |
| Total Outstanding at 12/31/07 | \$ 199,149 |
| Current Portion at 12/31/07 | \$ 22,411 |
| Long-Term Portion at 12/31/07 | \$ 176,738 |

PFG Photovoltaic Lease:

| | |
|-------------------------------|-------------|
| Loan Amount | \$ 406,652 |
| First Payment Date | August 2003 |
| Payment Amount | \$ 4,887 |
| Duration of Loan | 115 Months |
| Interest Rate | 5.5% |
| Total Outstanding at 12/31/07 | \$ 240,643 |
| Current Portion at 12/31/07 | \$ 42,649 |
| Long-Term Portion at 12/31/07 | \$ 197,994 |

Although the F&E and PFG photovoltaic leases are shown separately above, the current year and long-term portions are shown as a combined total:

| | |
|-------------------------------|------------|
| Current Portion at 12/31/07 | \$ 65,060 |
| Long-Term Portion at 12/31/07 | \$ 374,732 |

NOTE 6

RETIREMENT PLAN

Permanent employees of the DAA are members of the Public Employees' Retirement System (PERS), which is a defined benefit contributory retirement plan. The retirement contributions made by the DAA and its employees are actuarially determined. Contributions plus earnings of the Retirement System will provide the necessary funds to pay retirement costs when accrued. The DAA's share of retirement contributions is included in the cost of administration. For further information, please refer to the annual single audit of the State of California.

Retirement benefits fully vest after five years of credited service for Tier I employees. Retirement benefits fully vest after ten years of credited service for Tier II employees. Upon separation from State employment, members' accumulated contributions are refundable with interest credited through the date of separation. The DAA, however, does not accrue the liability associated with vested benefits.

The Alternate Retirement Program (ARP) is a retirement savings program that certain employees hired on or after August 11, 2004 are automatically enrolled in for their first two years of employment with the State of California. ARP is administered by the Savings Plus Program with the Department of Personnel Administration and invests funds in a fixed-income fund. ARP provides two years of retirement savings (five percent of paycheck amount each month) in lieu of two years of service credit. At the end of the two-year period, the deductions are placed in CalPERS and the retirement service credit begins.

Temporary, 119-day, employees of the DAA participate in the Part-Time, Seasonal, Temporary (PST) Retirement Plan. The PST Retirement Plan is a mandatory deferred compensation plan under which 7.5% of the employee's gross salary is deducted before taxes are calculated. These pre-tax dollars are placed in a guaranteed savings program. The employee has the option of leaving these funds on deposit upon separation, or requesting a refund.

NOTE 7

RECLASSIFICATION

Certain prior-year balances have been reclassified to conform to current year presentation. This reclassification did not have an effect on net income.

**28TH DISTRICT AGRICULTURAL ASSOCIATION
SAN BERNARDINO COUNTY FAIR
VICTORVILLE, CALIFORNIA**

REPORT DISTRIBUTION

| <u>Number</u> | <u>Recipient</u> |
|----------------------|---|
| 1 | President, 28th DAA Board of Directors |
| 1 | Chief Executive Officer, 28th DAA |
| 1 | Director, Division of Fairs and Expositions |
| 1 | Chief Counsel, CDFA Legal Office |
| 1 | Chief, CDFA Audit Office |

CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE

AUDIT OFFICE



28TH DISTRICT AGRICULTURAL ASSOCIATION
SAN BERNARDINO COUNTY FAIR
VICTORVILLE, CALIFORNIA

MANAGEMENT REPORT #08-027

YEAR ENDED DECEMBER 31, 2007

28TH DISTRICT AGRICULTURAL ASSOCIATION
SAN BERNARDINO COUNTY FAIR
VICTORVILLE, CALIFORNIA

MANAGEMENT REPORT
YEAR ENDED DECEMBER 31, 2007

AUDIT STAFF

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Audit Chief
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MANAGEMENT REPORT NUMBER
#08-027

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CALIFORNIA DEPARTMENT OF
FOOD & AGRICULTURE

A. G. Kawamura, Secretary

Manny Hinojos, President
Board of Directors
28th DAA, San Bernardino County Fair
14800 Seventh Street
Victorville, California 92392

In planning and performing our audit of the financial statements of the 28th District Agricultural Association (DAA), San Bernardino County Fair, Victorville, California, for the year ended December 31, 2007, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure. However, we noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

In addition, this Management Report includes: (1) matters other than those related to the internal control structure which came to our attention that could, in our judgment, either individually or in the aggregate, have a significant effect on the entity's financial reporting process (e.g., accounting errors, significant audit adjustments, etc.), and (2) areas of non-compliance by the San Bernardino County Fair with respect to State laws and regulations, with the Accounting Procedures Manual, and with established policies and procedures.

In accordance with Government Code Section 13402, Fair managers and Board of Directors are responsible for the establishment and maintenance of a system or systems of internal accounting and administrative control within their agencies. This responsibility includes documenting the system, communicating system requirements to employees, and assuring that the system is functioning as prescribed and is modified, as appropriate, for changes in conditions.

Due to the small size of the 28th DAA's office staff, it is not practical to have the degree of segregation of duties possible in a larger organization. Therefore, the Board of Directors must consider this when determining the extent that the Board becomes involved in operations to adequately safeguard the 28th DAA's assets. The system of internal control should provide the Board of Directors and management reasonable, but not absolute,



assurance that: (1) only authorized transactions are executed; (2) transactions are properly recorded in the accounting records; and (3) material errors and irregularities that may occur, will be detected by the 28th DAA in a timely manner during the normal course of operations. In this regard, it is particularly important that the Board review and approve significant transactions and critically review monthly financial information. The 28th DAA's minimum staffing was one factor considered in determining the nature, timing, and extent of the tests to be performed on the 28th DAA's accounting procedures, records, and substantiating documents.

During our audit of the internal control structure of the 28th DAA and compliance with state laws and regulations, we identified four areas with reportable conditions that are considered weaknesses in the Fair's operations: accounting for deferred income, excessive expenditures, accounting for property, plant & equipment, and weakness in cash account reporting. We have provided five recommendations to improve the operations of the Fair. The Fair must respond in writing on how these recommendations will be implemented.

We also identified an additional area containing non-reportable conditions. This condition and accompanying recommendation is not considered a significant weaknesses. We have included this item solely for the benefit of the 28th DAA's management. We suggest the Fair implement the recommendation as soon as practicable. The Fair, however, is not required to provide a written response to the recommendation for a non-reportable condition.

REPORTABLE CONDITIONS

ACCOUNTING FOR DEFERRED INCOME

The 28th DAA did not research and adjust Account #228, Deferred Income, prior to closing its accounting records and preparing the year-end financial statements. Furthermore, the 28th DAA did not maintain detailed supporting accounting records that reconciled with the amount reported at year-end. As a result, our office cannot determine whether the amount reported of \$155,243 is fairly stated as of December 31, 2007.

Generally Accepted Accounting Principles (GAAP), sound accounting and business practices, as well as the Accounting Procedures Manual (APM) dictate the proper matching of revenues and expenditures in the correct accounting period. Since deferred income represents revenues received but not earned on the Fair's balance sheet, errors in the posting of activity to this account may materially affect the Fair's results of operations. Since we are unable to satisfy ourselves regarding the balance in Account #228, Deferred Income, we have issued a qualified opinion on the 28th DAA's financial statements for this account.

Recommendations

- 1. The 28th DAA should make it a priority to research and determine the correct balance for Account #228, Deferred Income. The necessary correcting journal entries should be made to ensure the account is fairly stated.*
- 2. The 28th DAA should ensure all amounts reported as liabilities in the year-ending financial statements, including amounts reported in Account #228, are supported with detailed accounting records prior to closing the accounting period and preparing the year-ending financial statements. Any variances between the general ledger balance and related supporting documentation should be researched and corrected.*

EXCESSIVE EXPENDITURES

The Fair did not justify and support the business purpose and necessity for discretionary expenditures totaling \$10,698 for "catering accommodations for dignitary tent" in May 2007. Sound accounting, good business practices, and the requirements of the Division of Fairs and Expositions (F&E) internal policy over public relations and promotional expenses mandate specific and detailed information for all persons incurring such expenses. All claims must include the name of all recipients of the item or benefit, purpose of the expenditure, justification for providing food or a meal, and the specific topics discussed during the event, as well as the necessity of or the benefits expected to accrue to the Fair by entertaining.

Recommendation

- 3. The Fair should follow F&E internal policy by requiring that all claims for payment of promotional or public relations expenses must include the names of all recipients of the items or benefit and the purpose of the expenditure, justification for the food or meal,*

specific business topics discussed during the event, and necessity of or the benefits expected to accrue to the Fair by entertaining. Claims that do not meet all requirements should not be approved for payment.

ACCOUNTING FOR FIXED ASSETS

Upon examining the Fair's fixed asset records, our office noted the following reportable conditions:

- a. The Fair recorded and depreciated assets that did not comply with existing State criteria regarding the capitalization of these costs. As a result, Account #192, Building and Improvements, (B&I) was overstated by \$33,914 while Account #192.1, Accumulated Depreciation – B&I, was also overstated by \$31,886. The Department of Finance (DOF) capitalization criteria requires State agencies such as the 28th DAA to capitalize only projects and equipment that cost more than \$5,000 and have a useful life of one year or greater. This was a prior year finding.
- b. The Fair did not record the 2006 acquisition of a storage shed costing \$7,812 which meets the DOF capitalization criteria having cost more than \$5,000 and having a useful life of one year or greater. This omission caused an understatement to the Account #192, Buildings & Improvements, and the Fair's overall net resources. This was a prior year finding.

Recommendations

4. *The Fair should make the necessary correcting journal entry to ensure Account #192, Building and Improvements, is fairly stated in the general ledger and supporting accounting records.*
5. *In the future, the Fair should ensure all buildings and improvements meeting Department of Finance asset capitalization criteria are capitalized and fully accounted for within the financial accounting records. More emphasis should be placed on ensuring the property ledger and related depreciation schedules are adequately updated and reconciled to reflect the value of related assets prior to closing the accounting records at year-end. This process will benefit the Fair since it will result in the preparation of a more accurate Statement of Operations.*

WEAKNESS IN CASH ACCOUNT REPORTING

Our office noted the Fair did not use the correct information to prepare Standard Form 445, "Report of Bank/Savings & Loan Association Account Outside the Treasury System". For its operating, payroll, and premium cash accounts, the Fair reported the June 30, 2007 balances as \$462,349, \$8,961, and \$7,508, respectively, using bank statement balances. However, the State Treasurer's Office (STO) requires the book (general ledger) balance, rather than the bank statement balance to be reported for each bank account outside the State Treasury. The book balances in the cash accounts as of June 30, 2007 were: Operating \$379,916, Payroll \$2,694 and Premium \$3,597, per the general ledger. As a result, the Standard 445 Form was overstated by \$92,609.

Recommendation

5. *Prior to submission to the State Treasurers Office, the Fair should ensure Standard Form 445, "Report of Bank/Savings and Loan Association" reflects the general ledger balance, rather than bank statement balance, at June 30 for each bank account outside the State Treasury.*

NON-REPORTABLE CONDITION**COMPENSATED ABSENCES LIABILITY**

The Fair overstated the amount reported for Account #245, Compensated Absences Liability, by \$2,722 due to minor errors within the calculations of hours on individual employee leave worksheets. Our office noted the minor errors were related to amount of State service and accrual rates given to a few of the Fair's permanent intermittent employees. A few permanent intermittent employees were over-compensated vacation/annual leave hours.

Recommendations

The Fair should make the necessary correcting journal entries to ensure Account #245, Compensated Absences Liability, is fairly stated in the general ledger.

The Fair should review the leave balances for all its permanent intermittent employees to ensure the hours being accrued are in accordance with rules and regulations established by the Department of Personnel Administration (DPA) .

DISTRICT AGRICULTURAL ASSOCIATION'S RESPONSE

28th District Agricultural Association
Audit Response
2007 Audit

Date: January 23, 2009

Reportable Conditions

Accounting for Deferred Income:

The 28th DAA researched account #228 before closing its accounting records and the balances were documented. CFSA, in closing the CCA projects, added to account #228 the project amounts which had not been closed as of year-end. The corresponding expenses were debited to the Construction in Progress Account. CFSA feels this is the correct procedure to account for these income and expense amounts.

At the time of the audit, it was explained the amounts had been added as they appeared in the general ledger detail for account #228. Each of these expenses was documented and discernable. The 28th DAA relies on CFSA to present our financial standing correctly. We contacted Tommy Torres via e-mail and are awaiting further direction as to the proper manner to report future projects that begin in one year and are completed in another.

Excessive Expenditures:

The purpose for the “catering accommodations for the dignitary tent” was to provide an additional tool for the 28th DAA to entice sponsorships and to create new and strengthen existing relationships with elected officials in our community. When the marketing firm, TMG, created this idea, it was the fair management’s understanding TMG had already secured a sponsor to pay for the catering. After the 2007 San Bernardino County Fair, it came to the 28th DAA’s management’s attention that TMG had not secured the sponsorship for this “Dignitary Tent”. At this point the services had been rendered and the expense of \$10,698 had to be paid.

In the future the 28th DAA will follow F&E internal policies regarding this type of event. The Association will not be hosting a “Dignitary Tent” in 2009.

Accounting for Fixed Assets:

All items not complying with existing State criteria regarding the capitalization of assets were deleted from the property ledger along with their corresponding depreciation in July of 2008.

The storage shed so noted was added to the property ledger in July of 2008 along with the corresponding depreciation.

The 28th DAA will make every effort in 2008 to review the assets that we have and determine their proper location in the property ledger prior to closing the accounting records.

Reportable Conditions (continued)

Weakness in Cash Account Reporting:

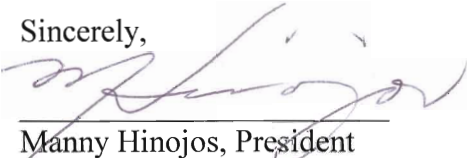
The 28th DAA acknowledges the error and will correctly report our cash accounts as book balances rather than bank statement balances in the future.

Non-Reportable Conditions

Compensated Absence Liability:

The 28th DAA has continued auditing the employee Leave Balance Statements and is working closely with the DPA to verify the total state service for each 28th DAA employee. As soon as the state service verification is finalized, all compensated leave balances will reflect accurate state service and monthly accruals.

Sincerely,



Manny Hinojos, President
Board of Directors

28th DAA, San Bernardino County Fair

CDFA EVALUATION OF RESPONSE

A draft copy of this report was forwarded to the management of the 28th DAA, San Bernardino County Fair for its review and response. To provide clarity and perspective, we have the following additional comments on the San Bernardino County Fair's response to our audit report.

ACCOUNTING FOR DEFERRED INCOME

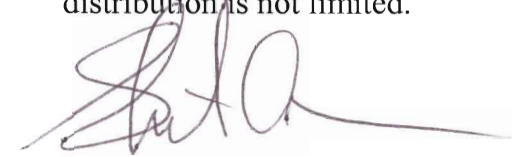
The Fair stated in their response that CFSA (a joint powers authority providing accounting services to the Fair) recorded CCA projects by adding them to Account #228, Deferred Income, and that each of these expenses was documented and discernable. Additionally, the Fair stated that they had contacted our office via e-mail regarding the proper manner to report construction projects that overlap from one year to another.

Our office examined Account #228, Deferred Income, and the corresponding journal entries made during December 2007 and were unable to satisfy ourselves as to the appropriateness of the account balance as presented in the 2007 Statement of Operations. We ascertained that the Fair may have erroneously used the deferred income account to record reimbursable construction expenses that had been invoiced but not paid, which more appropriately would have been recorded/reported in Account #131, Accounts Receivable. The Fair should be advised that accounting services performed by a third party and used in the preparation of the annual Statement of Operations are the ultimate responsibility of the Fair. Placing reliance on the reports provided by an accounting service should occur after a thorough review of those reports by Fair management.

DISPOSITION OF AUDIT RESULTS

The findings in this management report are based on fieldwork that my staff performed between August 18, 2008 and August 29, 2008. My staff met with management on August 28, 2008 to discuss the findings and recommendations, as well as other issues.

This report is intended for the information of the Board of Directors, management, and the Division of Fairs and Expositions. However, this report is a matter of public record and its distribution is not limited.



Ron Shackelford, CPA
Chief, Audit Office

August 29, 2008

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